

Message Text

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ACTION EB-07

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R 132252Z FEB 76

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 2882

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

AMEMBASSY SAN SALVADOR

USMISSION EC BRUSSELS

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E.O. 11652: N/A

TAGS: EAGR, ETRD, CS

SUBJECT: U.S. VOLUNTARY RESTRAINT PROGRAM FOR BEEF

REF: STATE 20858, STATE 32995

1. SUMMARY. TOP LEVEL COSTA RICAN GOVERNMENT AND INDUSTRY OFFICIALS HAVE HAD NO RECENT CONTACTS WITH EUROPEAN MEAT IMPORTERS AND REMAIN SKEPTICAL ABOUT POSSIBILITY OF SIGNIFICANT COSTA RICAN MEAT SALES TO EUROPEAN COUNTRIES. EMBASSY AGAIN RECOMMENDS THAT ADJUSTMENTS BE MADE IN U.S. ALLOCATION OF VRS LEVELS TO PROVIDE BETTER TREATMENT FOR COSTA RICA. THIS MESSAGE SUGGESTS A POSSIBLE IMPROVED FORMULA FOR VRS ALLOCATIONS. IT ALSO QUESTIONS THE SIZE OF THE SET-ASIDE FOR CANADA, WHICH IS 27 PERCENT HIGHER THAN PREVIOUS SHIPMENTS, AND ASKS WHETHER IMPORTS FROM CANADA COULD NOT BE DEFINED AS NET IMPORTS, THEREBY REDUCING THE AMOUNT COUNTED AGAINST THE VRS SYSTEM BY THE 28.5 MILLION LBS. OF U.S. BEEF THAT IS EXPORTED TO CANADA. FINALLY, IT ASKS THAT THE U.S. OPERATE ITS MEAT IMPORT PROGRAM AS VOLUNTARY RESTRAINT PROGRAMS HAVE TRADITIONALLY BEEN

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OPERATED -- THAT IS, NOT AS AN IMPORT ROLL-BACK PROGRAM

BUT A PROGRAM TO RESTRAIN FUTURE GROWTH OF IMPORTS IN PROPORTION TO THE GROWTH OF THE U.S. MARKET. FOR COSTA RICA, THIS WOULD MEAN A VRS LEVEL ABOVE THE 60 MILLION LB. LEVEL THAT COSTA RICA'S EXPORTS HAD REACHED BEFORE THE VRS SYSTEM WAS RE-INTRODUCED IN 1975. END SUMMARY.

2. AMBASSADOR HAS DISCUSSED WITH PRESIDENT ODUBER AND FONMIN FACIO AND HEAD OF CATTLEMEN'S ASSOCIATION ADRIAN CASTRO POSSIBILITY SUGGESTED BY DEPARTMENT OF SELLING BEEF TO EC MARKET. AGATT HAS COVERED SAME GROUND WITH VICE MINISTER OF AGRICULTURE HUGO CASTRO AND KEY INDUSTRY REPS. ODUBER HAS HEARD NOTHING ABOUT ANY RECENT PURCHASE OFFERS FROM EC MEAT BUYERS, BUT HE ASSURED AMBASSAEYR THAT HE WOULD INSTRUCT APPROPRIATE GOVERNMENT OFFICES TO BE ALERT TO ANY CHANCES THAT MIGHT PRESENT THEMSELVES TO SELL MEAT TO EUROPE. HE AGREED THAT IF THIS MARKET WERE OPENED IT WOULD BE PROMISING FOR COSTA RICA. FACIO, ON OTHER HAND, WAS NOT OPTIMISTIC THAT THE EUROPEAN OPTION WOULD PROVE TO BE REALISTIC.

3. VICE MINISTER OF AGRICULTURE AND INDUSTRY REPS STATED THAT COSTA RICA IS TRYING TO DIVERSIFY EXPORT MARKETS AND IS LOOKING AT EC MARKET BUT HAS NOT RECEIVED ANY RECENT INQUIRIES FROM EC COUNTRIES. TO THEIR KNOWLEDGE, EC NOT ACTIVELY INTERESTED IN PURCHASING BEEF FROM COSTA RICA. INDUSTRY REPS UNDERSTAND THROUGH THEIR TRADE CONTACTS THAT ARGENTINA AND URUGUAY (COUNTRIES THAT MUST SELL THEIR BEEF AT A LOWER PRICE BECAUSE THEY ARE SELLING FRESH BEEF THAT IS NOT ELIGIBLE TO ENTER THE U.S. MARKET) ARE MAKING BIG EFFORTS TO INCREASE SALES TO EC. THEY ALSO BELIEVE THAT AUSTRALIA WILL GIVE PREFERENCE TO EXPANDING ITS MARKETS IN EC COUNTRIES AND MAY FALL BEHIND IN SHIPMENTS TO THE U.S., BUT WILL REFUSE TO GIVE UP ANY PORTION OF THEIR QUOTA FOR REALLOCATION, CLAIMING THAT IT WILL BE FILLED AT YEAR END. THEY PLEASED TO HEAR THAT EUROPEAN PRICES RUNNING HIGHER THAN U.S. PRICES ALTHOUGH THIS HAS NOT BEEN THEIR EXPERIENCE AS OF FOUR MONTHS AGO.

4. EMBASSY ALSO REMAINS SKEPTICAL ABOUT POSSIBILITY OF LIMITED OFFICIAL USE

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SIGNIFICANT COSTA RICAN MEAT SALES TO EC MARKET AT VIABLE PRICE AND URGES DEPARTMENT TO CONTINUE TO EXPLORE POSSIBILITIES OF PROVIDING FOR LARGER SHIPMENT TO U.S. THROUGH REALIGNMENT OF QUOTA ALLOCATIONS TO REFLECT PERFORMANCE AND POTENTIAL AND THROUGH PROVISION FOR REALLOCATION OF SHORTFALLS WITHIN THE HEMISPHERE. FULLY APPRECIATE LATTER WOULD BE DIFFICULT FOR AUSTRALIA AND NEW ZEALAND BUT IT IS WORTH PRESSING FOR SINCE ITS

ADOPTION WOULD SERVE NOT ONLY TRADITIONAL OBJECTIVES OF U.S. HEMISPHERIC POLICY BUT WOULD ALSO HELP TO IMPLEMENT U.S. COMMITMENTS TO GIVE SPECIAL ATTENTION TO TRADE MEASURES FAVORABLE TO DEVELOPING COUNTRIES.

5. INSTEAD OF FAVORING LDC'S, OUR PRESENT MEAT POLICY APPEARS TO GIVE PREFERENTIAL TREATMENT ON A DE FACTO BASIS TO DEVELOPED COUNTRIES -- AUSTRALIA, NEW ZEALAND, AND CANADA. WE NOTE THAT AUSTRALIA INCREASED ITS SHARE OF THE TOTAL U.S. MEAT IMPORT PROGRAM TO 56 PERCENT IN 1975 IN COMPARISON TO THE 51 PERCENT AVERAGE MARKET SHARE HELD BY AUSTRALIA FROM 1972-74. SIMILARLY, NEW ZEALAND INCREASED ITS SHARE FROM 22 TO 23 PERCENT. WHEN WE ASKED LAST YEAR THAT REALLOCATIONS BE WITHIN THE HEMISPHERE, WE WERE TOLD THAT THE PROGRAM HAD TO BE SPERATED IMPARTIALLY WITH EVEN-HANDED TREATMENT FOR ALL. WE ACCEPT THAT THIS WAS THE DEPARTMENT'S INTENT, BUT WE RESPECTFULLY POINT OUT THAT THE ACTUAL RESULT IN 1975 WAS THAT AUSTRALIA, EVEN WITHOUT COUNTING ANY INDIRECT SHIPMENTS THAT MAY HAVE TAKEN PLACE, INCREASED ITS MARKET SHARE, AS COMPARED TO ITS HISTORICAL SHARE OF THE U.S. BEEF MARKET DURING THE PREVIOUS THREE YEARS, BY AN AMOUNT (4 PERCENT) ALMOST EQUAL TO THE ENTIRE COSTA RICAN QUOTA. MOREOVER, AUSTRALIA WAS GIVEN THE LION'S SHARE (67 PERCENT) OF THE SHORTFALL REALLOCATION LAST YEAR AND STILL OVERSHIPPED MEAT TO THE U.S. BY AN AMOUNT (41 MILLION POUNDS) THAT WAS ALMOST EQUAL TO THE ENTIRE COSTA RICAN QUOTA. WE BELIEVE THAT SUCH A RESULT, HOWEVER UNINTENDED, CALLS FOR CORRECTIVE ACTION THAT WOULD INCREASE THE ALLOCATION OF COSTA RICA, WHICH WAS THE PRINCIPAL INJURED PARTY.

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6. A FORMULA THAT WE BELIEVE WOULD BE FAIR TO ALL AND THAT WOULD GREATLY ASSIST WITH COSTA RICAN PROBLEM, WOULD BE TO BASE 1976 VRS ALLOCATIONS ON ACTUAL SHIPMENTS DURING CALENDAR YEARS 1974 AND 1975 PLUS A GROWTH FACTOR OF 5 PERCENT, WHICH REPRESENTS THE OVERALL INCREASE IN THE 1976 BASE QUANTITY FOR ALL COUNTRIES, AS COMPARED TO THE 1975 BASE QUANTITY. AS COSTA RICA SHIPPED 60 MILLION POUNDS OF MEAT IN 1974 AND 60.5 MILLION POUNDS IN 1975 THE PROPOSED FORMULA WOULD GIVE COSTA RICA A 1976 QUOTA OF 63.3 MILLION POUNDS.

7. ORDINARILY, WE WOULD NOT PROPOSE A FORMULA THAT MIGHT APPEAR TO SOME OBSERVERS TO CREATE A REWARD FOR OVERSHIPMENT, BUT WE THINK THE FORMULA WE PROPOSE IS JUSTIFIED UNDER THE CIRCUMSTANCES FOR THE FOLLOWING REASONS:

A. THE ALLEGED OVERSHIPMENT OF MEAT BY COSTA RICA DURING 1975 IS BASED ON U.S. STATISTICS WHICH INCLUDE IMPORTS OF A LARGE QUANTITY OF MEAT THAT WAS SHIPPED BY COSTA RICA THE PREVIOUS YEAR. THUS, THE U.S. COUNTS AGAINST COSTA RICA MEAT THAT WAS SHIPPED INTO THE U.S. BEFORE THE VRS PROGRAM EVEN WENT INTO EFFECT. COSTA RICA
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EMBARGOED FURTHER SHIPMENTS OF MEAT TO THE U.S. IN 1975 AS SOON AS IT CALCULATED IT HAD REACHED ITS VRS LEVEL. OUR MEAT IMPORT SYSTEM IS NOT A QUOTA SYSTEM, UNDER WHICH WE WOULD HAVE THE RIGHT TO APPLY OUR OWN DEFINITIONS, BUT A VOLUNTARY RESTRAINT SYSTEM UNDER WHICH COSTA RICA'S ONLY UNDERTAKING WAS TO LIMIT THE QUANTITY OF MEAT "EXPORTED FROM COSTA RICA" DURING 1975 (PARA 2 OF AGREEMENT). SURELY A COUNTRY RESTRAINING EXPORTS VOLUNTARILY HAS THE RIGHT TO USE ITS OWN DEFINITIONS.

B. THE COSTA RICAN OVERSHIPMENT WAS LESS THAN ONE-SIXTH OF AUSTRALIA'S OVERSHIPMENT, AND ONLY HALF OF NEW ZEALAND'S.

C. OTHER COUNTRIES HAVE EVADED THEIR VRS OBLIGATIONS BY SHIPPING ADDITIONAL QUANTITIES OF MEAT, OVER AND ABOVE THEIR RESTRAINT LEVELS, TO THE U.S. MARKET THROUGH INTERMEDIARY COUNTRIES, AND

D. BECAUSE OF THOSE INDIRECT SHIPMENTS, SHORTFALLS THAT WOULD OTHERWISE HAVE DEVELOPED IN THE SHIPMENTS OF CERTAIN COUNTRIES DID NOT DEVELOP AND COSTA RICA WAS ACCORDINGLY DEPRIVED OF OPPORTUNITIES FOR FURTHER INCREASES IN ITS ALLOCATION.

8. IN ADDITION TO PROPOSING A NEW FORMULA FOR ALLOCATION OF THE VRS LEVEL, THE EMBASSY WONDERS WHY THE PRESENT FORMULA WOULD YIELD NO INCREASE ABOVE ORIGINAL 1975 VRS LEVEL WHEN THE OVERALL BASE QUANTITY IS UP 5 PERCENT, AND TWO COUNTRIES (UK AND IRELAND) ARE NOT EXPECTED TO EXPORT TO THE U.S. IN 1976. COULD IT BE PARTLY BECAUSE OF THE ALLOCATION OF 70 MILLION POUNDS TO CANADA? IMPORTS FROM CANADA IN 1973 (PRIOR TO 1974 RECIPROCAL QUOTAS) WERE ONLY 55.3 MILLION POUNDS AND WERE GROWING AT ONLY 2.5 PERCENT PER YEAR, WHICH WOULD INDICATE A 58 MILLION POUND LEVEL FOR 1976, RATHER THAN 70 MILLION. ALSO, WE OBSERVE THAT THE U.S. EXPORTED 28.5 MILLION POUNDS OF FRESH, CHILLED AND FROZEN BEEF TO CANADA IN 1973. WOULD IT NOT BE POSSIBLE TO COUNT AGAINST THE VRS OVERALL CEILING ONLY THE EXPECTED NET EXPORTS TO CANADIAN BEEF? THIS WOULD MEAN THAT ONLY SOME 40 MILLION POUNDS LIMITED OFFICIAL USE

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WOULD BE DEDUCTED FROM THE VRS CEILING, FREEZING ALMOST 30 MILLION POUNDS TO BE ALLOCATED TO OTHER SUPPLIER COUNTRIES.

9. FINALLY, THE EMBASSY RECOMMENDS THAT THE DEPARTMENT ESTABLISHED SOME FORMULA UNDER WHICH THE MEAT PROGRAM WOULD OPERATE AS MOST VOLUNTARY RESTRAIN PROGRAMS HAVE TRADITIONALLY OPERATED -- THAT IS TO RESTRAIN GROWTH OF IMPORTS RATHER THAN TO ROLL BACK IMPORTS. IN THE CASE OF COSTA RICA, THIS WOULD MEAN THAT THE PROGRAM SHOULD ALLOW ANNUAL GROWTH ABOVE THE 60 MILLION POUND LEVEL THAT COSTA RICA MEAT EXPORTS TO THE U.S. REACHED IN 1974 BEFORE THE PROGRAM WENT INTO EFFECT. U.S. BEEF OUTPUT HAS INCREASED OVER 11 PERCENT IN THE PAST TWO YEARS. WHY NOT ALLOW NYHZJ COSTA RICAN INDUSTRY, WHICH IS AN EXCELLENT CUSTOMER FOR U.S. BREEDING STOCK, TO HAVE A COMPARABLE RATE OF GROWTH?
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